

**REPORT OF THE AUDITOR-GENERAL TO THE MPUMALANGA PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE THEMBISILE HANI LOCAL MUNICIPALITY
REPORT ON THE FINANCIAL STATEMENTS**

Introduction

1. I have audited the financial statements of the Thembisile Hani Local Municipality set out on pages xx to xx, the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Accumulated surplus

6. A qualified opinion was issued in the prior period, with revenue forming the basis of the qualification. I was unable to determine the effect of these limitations on the accumulated surpluses as at 30 June 2013. Consequently, I was unable to determine whether the accumulated surpluses stated at R2 067 561 307 are fairly stated.

Property, plant and equipment

7. Included in property, plant and equipment is assets under construction of R68 078 522. The municipality could not provide sufficient appropriate audit evidence relating to additions to, and transfers from, assets under construction amounting to R40 445 552 and R27 490 747, respectively. I was unable to confirm the value of these transactions by alternative means. Consequently, I was unable to determine whether property, plant and equipment is fairly stated.

Trade debtors

8. A qualified opinion was issued on the prior year's trade debtors. I was unable to determine the extent of the effect of these limitations on trade debtors as at 30 June 2013, including the comparative amounts disclosed in the financial statements.

Trade and other payables

9. A qualified opinion was issued on the prior year's trade and other payables in respect of retentions. I was unable to determine the extent of the effect of these limitations on retentions as at 30 June 2013, including the comparative amounts disclosed in the financial statements.

Commitments

10. Commitments as disclosed in note 25 to the financial statements are understated due to the remaining contract amounts for most of the work-in-progress contracts not having been included in the commitments amount of R11 921 565. I was unable to confirm the completeness by alternative means.

Aggregation/Accumulation of immaterial uncorrected misstatements

11. The financial statements in aggregate are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position:
 - Understatement of trade debtors of R13 915 738.
 - Overstatement of infrastructure assets of R8 318 428.
 - Overstatement of community assets of R5 343 918.
 - Overstatement of work in progress of R18 300 017.
 - Understatement of accrued expenses of R441 368.
 - Understatement of value-added tax receivable of R391 073.

Qualified opinion

12. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Thembisile Hani Local Municipality as at 30 June 2013 and its

financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matter

13. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Material impairments

14. The municipality had receivables for consumer debtors totalling R148 071 075 at 30 June 2013, which had been outstanding for more than 12 months. The recoverability of these amounts is doubtful.

Additional matter

15. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

16. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

17. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

18. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
19. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability.
20. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

21. The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
22. The material findings are as follows:

Usefulness of information

Measurability

23. The FMPPI requires that the time period or deadline for delivery should be specified. A total of 22% of the targets relevant to infrastructure development and service delivery were not time bound in specifying a time period or deadline for delivery. This was because management was aware of the requirements of the FMPPI but did not receive the necessary training to apply the principles.

Reliability of information

24. The FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. However, significantly important targets with respect to service delivery and infrastructure development were materially misstated. This was due to a lack of standard operating procedures for monitoring the completeness of source documentation in support of actual achievements.

Additional matter

25. I draw attention to the matter below. This matter does not have an impact on the audit findings on predetermined objectives reported above.

Achievement of planned targets

26. Of the total number of 58 targets planned for the year, only 40 were achieved. This means that 31% of the total planned targets were not achieved during the year under review. This was the result of the municipality not considering relevant systems and evidential requirements during the annual strategic planning process.

Compliance with laws and regulations

27. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

Annual financial statements, performance report and annual report

28. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of property, plant and equipment identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected aggregated misstatements resulted in the financial statements receiving a qualified audit opinion.

Revenue management

29. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

Strategic planning and performance

30. The performance management system of the municipality did not provide for the monitoring, measuring and review of performance at least once per year, with regard to each development priority and objective and against the key performance indicators and targets set, as required by section 41 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA).
31. The municipality did not take steps to implement the performance management system timeously, contrary to Municipal Planning and Performance Management Regulation 8.
32. The municipality did not follow the established mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.
33. The municipality did not set measurable performance targets for the financial year with regard to each of the development priorities and objectives and key performance indicators set out in the integrated development plan, as required by section 41(1)(b) of the MSA and Municipal Planning and Performance Management Regulation 12(1) and 12(2)(e).
34. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(ii).

Asset and liability management

35. An adequate management, accounting and information system was not in place to account for liabilities, as required by section 63(2)(a) of the MFMA.

Transfer of funds and conditional grants

36. The municipality did not evaluate its performance in respect of programmes funded by the integrated national electrification programme grant, local government financial management grant and municipal systems improvement grant, and did not submit the evaluation to the transferring national officer within two months after the end of the financial year, as required by section 12(5) of DoRA.

Audit committee

37. The audit committee did not advise the council and accounting officer on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
38. The audit committee did not advise the council and accounting officer on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.

Internal audit

39. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
- it did not report to the audit committee on the implementation of the internal audit plan

- it did not advise the accounting officer and report to the audit committee on matters relating to risk and risk management.
40. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

Internal control

41. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

42. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall process of reporting.
43. The leadership did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

Financial and performance management

44. The municipality did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.
45. Management did not review and monitor compliance with applicable laws and regulations.
46. The municipality did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.

Auditor General

Nelspruit

30 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence